

FUTURE DIRECTION OF ECONOMIC GROWTH

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I. POSSIBILITY OF CONTINUING GROWTH

IT IS NOT MY intention, here, to attempt a totally new description of the future development of the Japanese economy, a subject so frequently touched upon by many writers [1] [2] [4] [6]. However, our economy now occupies an unprecedented position in Japan's history, as well as in world history, and it is of utmost importance to thoroughly recognize this fact. The first step is to review Japan's economic development from the past to present. This review will, needless to say, present implications for the future. Policy proposals arising from these implications may be many, but this outline will stop short of suggesting specific concrete policies. My remarks, therefore, will not go much beyond the major trend of the economy. I will begin by seeking to identify that major trend.

Our inquiry into the future of the Japanese economy, in fact, requires an examination of the nature of its growth to date. Has this growth been merely a transient phenomenon? Is the Japanese economy capable of surviving future ordeals in the international scene? These questions indicate that our primary concern is how far into the future this growth will extend. The GNP of Japan in 1950 was approximately \$15 billion, or only one-twentieth of that of the United States. Ten years later, in 1960, the figure was about \$45 billion, still a mere one-tenth of that of the United States. However, in 1970, the figure reached the vicinity of \$200 billion, or one-fifth of the American GNP, and if one takes into account the shift in exchange rates during 1971, it is estimated to have reached \$300 billion in 1972. Even taking into account the increase in the U.S. GNP, the Japanese GNP should now be closer to one-third of the American than to one-quarter. Should this rate of increase continue, the GNP of Japanese economy will reach \$1 trillion before long, which means catching up with the GNP of the U.S. economy in 1970. In fact, there already is mention of a political target of raising the Japanese economy to that level in 1985 [4]. Is this feasible?

Some think not. Unless improved technologies are quickly developed to overcome currently emerging problems, further growth of the economy will intensify the problems of urban concentration and industrial pollution even beyond present levels, making living conditions unendurable. At the same time, with continued rapid economic growth, Japan's reliance on overseas supplies of mineral resources, which had already reached 90 per cent in 1970, will approach 100 per cent before long. The share of Japanese imports in the overall world mineral trade will then near 20 per cent, compared to the 1970 figure of 12 per cent. Con-

sequently, as the largest importer of mineral raw materials in the world, Japan undoubtedly will meet with resistance from supplying countries anxious to conserve their resources, as well as opposition from nations competing for mineral imports.

Let us now take a look at exports. If we assume that the Japanese economy grows to \$500 billion, with exports still at approximately 10 per cent of GNP, annual exports of \$50 billion will be required. Will this be possible? Such a level of exports will hardly be accepted by world markets without resistance considering the fact that the Japanese advance into foreign markets has already become a big issue. Trade has been one of the mainstays of the growth of the Japanese economy. If trade expansion meets difficulties abroad, the present growth rate of the Japanese economy cannot be sustained.

In opposition to this view stands the belief that there can be "no welfare without growth." This does not deny the importance of resource problems, but considers that, though basic, they are not pressing. Ultimate exhaustion of resources is inevitable, but considering the time period before such exhaustion, regional differences, and the possibilities of technological innovation, this problem of resource depletion is not necessarily one that allows direct extrapolation. In comparison, problems of environmental hazards hanging over the people in their daily life are far more exigent. Air and water pollution and hazards due to noise and congestion require immediate countermeasures. But is not economic power needed for implementing such measures? In this sense, welfare and growth should be complimentary to each other.

These two views do not necessarily express positions opposing each other in the same dimension. The former view lays stress on objective conditions of growth, and, therefore, sees the Japanese economy mainly in its profound relationship with the world economy. On the other hand, the latter view emphasizes the domestic aspects of the economy, that is to say, it identifies with the lives of the people, laying stress on welfare as the goal of growth. It goes without saying that views on limits of resources, effects of growth, and environmental hazards vary according to which position one takes. I have presented these two divergent positions because they aptly express views, still in disorder, on the future of the Japanese economy. The confusion concerning future economic growth has been brought about by two bewildering situations. First, the impact of the growth of the Japanese economy on the world economy has induced an unexpected reaction against Japan. Second, the Japanese people have been confronted by the new question of "What is growth?" as environmental disruption increases, an unexpected by-product of rapid growth. Our primary task is to consider what direction should be taken in considering these problems.

II. LABOR, CAPITAL, AND ENTREPRENEURSHIP IN JAPAN'S GROWTH

We have to begin with identification of the factors that have driven the Japanese economy to its present level. Future development depends on how far these factors will be able to bear the pressures of the new environment that has evolved

in the course of growth. Shortage of resources, destruction of the natural environment, and unfavorable reactions from world markets are, in short, difficulties that have been brought to public attention as a result of the rapid growth of the Japanese economy. Problems of resource scarcity and pollution are certainly not peculiar to Japan, but also are common to all advanced countries, and to some extent, to other parts of the world economy. The shift in the position of the Japanese economy in world markets is related to changes in the relative strength of other national economies, and in this sense, it is not a question that involves only Japan. Yet, the severe impact of current difficulties of worldwide magnitude on the Japanese economy finds its primary cause in the rapid growth of the Japanese economy itself. Japan has now become an economic power second only to the United States. This fact, by itself, has increased the capacity of the Japanese economy to influence the world economy. At the same time it has transformed world problems into Japanese problems. In what ways might this significant change affect the factors underlying the growth of the Japanese economy?

Factors generally considered relevant to economic growth are, firstly, abundant labor, secondly, capital accumulation through savings, and thirdly, entrepreneurship. In the many years since the outset of Japanese modernization necessary changes in the industrial structure have been assisted by the existence of an able and ample labor force. Reliance on low-wage workers during a large portion of the development period was, on the one hand, due to the dual structure of industry. It might also, and perhaps more appropriately, be attributed to the pressures of excessive labor power. Needless to say, the prevalence of education exerted considerable influence on the modernization of the labor force itself.

It is known that the high rate of savings, especially savings out of individual incomes, has greatly facilitated the accumulation of national capital, stimulating Japan's modernization. Certainly, credits extended by the government and banks rather than internal savings of individuals played the key role in the formation of national capital. Ultimately, what sustained the sufficient creation of such institutional credits was, though indirectly, the accumulation of individual savings. The unusually high rate of individual savings throughout the prewar and postwar years, the large supply of capital through credit creation, and the close correlation between these two sources have upheld the growth of Japan in terms of capital.

Entrepreneurship, as the third factor, has been the organizing power, as it were, for utilizing advantageous labor and capital conditions and applying the fruits of such to actual economic growth. The government played a large part in this process, especially in the early days of industrial modernization. It can be said that the leadership of the "dynastic elite," to borrow a term Clark Kerr has used in his classification [3, Chapter 3], figured largely in that modernization. In industry, this leadership was evident in all types of creative activities. The transplantation of the industrialization in the West to a traditional culture such as that of Japan in itself meant creativity in the broadest sense, and transplantation of industrialization to each and every field of industry required many men of talent. In the case of Japan, the primary condition that enabled the

supply of such talent was the objective world situation surrounding Japan in those days. The second condition—a condition which sublimated this transplantation into a spirit of reformation from within—was the national cohesive power and political leadership emerging from the Meiji Restoration of 1868. The growth of the Japanese economy in the hundred years that followed was supported by what we may call the principle of “catch up and outstrip.” Japanese entrepreneurship owes its most active and effective growth to this “catch up” principle, which held sway over the whole nation.

Industrialization of Japan has been, to a large extent, a result of efforts in line with the “catch up” principle. Japanese labor, capital, and entrepreneurship conditions can be interpreted as being advantageous for the realization of this principle. What is most important is that neither the direction nor the attitude of this endeavor have changed throughout the years before and after the war. Because of the opportunity for more effective implementation of this principle, the rapid economic growth of the postwar era eventually achieved results great enough to astonish the whole world. Although external conditions have greatly altered owing to Japan’s defeat in the war, the factors which figure most prominently in the operation of the economy did not undergo extensive change. On the contrary, it should be said that the same principle persisted without change.

Speaking of recent years, it is true that conspicuous changes have been taking place in labor, capital, and entrepreneurship. As for labor, the shift from oversupply to labor shortage has induced various changes. This is still a relatively new phenomenon that we have come to see only in the past five years or so, but once this tendency becomes fixed, the advantages the Japanese economy has had in terms of labor power will be quickly lost.

By contrast, we see a change from the long years of shortage to an era of relative abundance as regards capital. The heavy dependence of capital procurement on credit creation in this country was, by its nature, due to the shortage of capital supply. If, at some point of time, economic growth brings about not only emancipation from danger of deficits in a country’s balance of international payments, but also produces well-established surpluses, we may say that the era of capital oversupply already has begun. In Japan’s case this tendency does not seem to have exerted any major influence on the savings propensity of individuals as yet, but if it does and induces changes in the near future, this will provoke change in another factor that has upheld the growth of Japan.

Thirdly, what can we say of entrepreneurship? Needless to say, we find a major alteration now in progress in the role of the government, a role which has served as the foundation for entrepreneurship. The direct role of the government in directing industrial development was extensive in the beginning, gradually diminishing as development made headway. Today, in the postwar era, the role of the government has shifted to more indirect activities, such as framing overall policies and regulatory guidelines. But, on the whole, in Japan’s case, the government role has at all times worked to promote private entrepreneurship, and it has, in fact, succeeded in implanting enterprising spirit in the economy. This is evidenced by the fact that we saw more of vigorous private enterprise

activity in the days of confusion immediately after surrender. This state of affairs has continued up to the present day. The expression "economic animal," which denounces overseas activities of Japanese enterprises, probably bespeaks the toughness of this vigorous enterprising spirit. The foundation of this spirit has been the principle of "catch up and outstrip" mentioned above. In this regard, now that the aim of the "catch up" principle has been achieved in terms of the growth rate, we should expect some change in the entrepreneurship established on that principle. Insufficient as our conjecture about these changes may be, if such changes do occur, they will tend to restrict growth.

It is not my intention to deny such changes. The Japanese workers' will to work will probably not last forever, the value attached to savings may decline, and managers and leaders may, in the course of time, lose their inclination to hard work. Quite a number of people contend that such changes are already in progress. In reality, however, no significant change is seen yet in Japanese attitudes concerning labor, capital, and entrepreneurship. The motive of "catching up," which is seen in all three factors and was fostered by a long history of impoverished living, has sustained the growth of the Japanese economy throughout the prewar and postwar days. Demand for leisure is rapidly increasing along with improvement in the income standard, but so far this has not deprived people of their will to work. As a result of inflation, the manner of savings has somewhat shifted from monetary to physical assets, but the rate of savings itself has not dwindled, as yet. As for the attitude of managers, the dictatorial hue has been remarkably subdued with the emergence of many hired managers, but competition consciousness is still extremely strong, serving as the source of vigorous enterprising spirit. In short, the three factors that have bolstered the growth of the Japanese economy are still functioning in their conventional manners in the midst of extensively changing objective conditions. Herein lies the source of the critical problems and difficulties of today.

III. NATURE OF IMBALANCE

The next matter at hand is to ascertain the nature of the difficulties confronting the economy. If the factors underlying Japanese growth both before and after the war have not changed, the economy will continue to grow at a certain rate despite inflation, environmental pollution, and the other serious obstacles that lie in its path. For instance, the Japan Economic Research Center estimates that the GNP of Japan in 1980 will triple the present figure at approximately \$950 billion [4], while the Boston Consulting Group, represented by James C. Abegglen, forecasts in one of its reports that the Japanese economy will maintain its average growth rate at close to 10 per cent in the 1970s. As a matter of fact, the Japanese economy, taken as a whole, will extend its past course for a considerable length of time into the future, in spite of warning crises and strong demands for improved welfare.

Is this desirable for the Japanese economy? There are two possible interpretations. One is to view the Japanese economy as having enough strength to

maintain rapid growth, overriding such serious difficulties as inflation and environmental pollution. In other words, the three factors that have helped Japan grow are viewed as aids to overcoming new obstacles. In part, this view has something in common with the idea of "no welfare without growth," but there is more to it. Going one step further, the advocates of this view consider that the aim of the "catch up" principle has not yet been attained, that there still remain in the world an infinite number of things to learn in terms of both technology and institutions, and that as long as this is true, the Japanese will have to continue vigorous economic efforts. It is true that the "catch up" principle, which takes Western Europe and North America as its models, has been achieved, at least in appearance. At the same time, it is difficult to deny the feeling that as we get closer to the West we realize that those countries are still far away in the sense of quality of human life. Therefore, even when the model is limited to Western Europe, there is room left for further efforts to catch up completely; such efforts provide energy for growth.

This, however, is not the only view. At the opposite extreme, others fear that because of the way the economy has grown there may be an even graver crisis lying ahead. The functioning of the factors that have upheld growth might ensure further growth amidst inflation and pollution. But would not the outcome of that growth lead the economy toward collapse by magnifying the imbalance created by growth? Here, we have to consider at least the qualitative differences between the imbalances that confronted the economy during the course of industrialization (i.e., imbalances between large and small-to-medium enterprises, agriculture and industry, and levels of production and material standards of living, etc.) and the new imbalance which is gradually showing itself in the form of inflation and pollution. The former imbalances could be somehow overcome in the course of growth, but can we expect that the new imbalance, which is concerned with the problem of production versus broader welfare, will be resolved in the future course of growth?

The first view, in brief, underestimates the difficulties that the Japanese economy will encounter. The fact that it has been possible to overcome the various obstacles which have arisen in the course of growth up to now, without any essential reform of the growth factors, does not necessarily imply that present and new difficulties can be effectively overcome. We have to gain adequate knowledge concerning the nature of the new difficulties which now stand in our way. Obstacles that emerge in the course of growth usually take the form of imbalances which roughly divide into domestic and international categories. Domestic imbalance, such as imbalance within a national economy between agriculture and industry, or between large and small-to-medium enterprises, in general, can be managed to a greater extent than international imbalance, such as pressures emanating from international payments disequilibrium.

In the case of the Japanese economy, these imbalances have been promoted by rapid growth, but at the same time it would seem that economic growth has been sustained by the imbalances, which may be considered preconditions for

growth. It may be extreme to consider that low wages have been intentionally maintained to expand Japanese exports, but it is hardly unnatural to think that there was once a time when low wages were necessary for the sake of growth. One could go so far as to say that domestically this imbalance was long taken for granted. In many cases, imbalances due to international factors have a strong influence on a country which must assume a passive position. While Japan's economic power was weak this country could not avoid the influence of this kind of imbalance arising from a long period of chronic balance of payments deficits. Various kinds of imbalance that emerged in the course of growth, especially the discrepancy between levels of production and standards of living—the most serious of them all—were, to a great extent, the result of the influence exerted by the imbalance of international payments. As evidenced by the facts, imbalance of this kind has been on the increase as the Japanese economy has expanded.

Another important categorization classifies the sources of imbalance as economic and noneconomic. This categorization may not be pertinent in a strict sense if it is extended beyond direct causes to indirect ones. Yet, it is an undeniable fact that the causes of the imbalance with which the Japanese economy is, and will be, faced go beyond the framework of the conventional market economy to include political and environmental factors. Inflation and environmental pollution have sources both in economic and noneconomic imbalance.

It may be going too far to say that inflation is a form of imbalance induced by noneconomic factors, for it has been considered to be the most conspicuous of all economic disorders and usually has been analyzed as such. However, the inflation that confronts modern society has sociological and sociopsychological aspects which have not been adequately grasped by conventional analytic methods. Underlying these aspects are problems of changing values that are shaking modern society. This is not to say that fiscal or monetary policies are ineffective as measures against inflation. Since inflation is mainly a problem of economic order, pertinent countermeasures cannot help but be devised mainly in terms of economic policies. However, we now see some aspects of the problem for which these measures are inadequate. Behind fiscal and monetary policies is politics, and underlying consumption patterns are problems tied to culture. Inflation in the modern age, therefore, has these political and cultural aspects in addition to economic facets. To put it simply, inflation is the result of the emphasis of full employment policy as a general and salient feature of the modern national economy. Not only in Japan, but in all advanced nations, full employment can be attained only through strenuous efforts. This goal is not attained without compensation. Inflation is the compensation for the achievement of the goal of full employment, and in this regard Japan is no exception. This imbalance that has taken the form of inflation differs in nature from the varieties of imbalance seen earlier in the process of growth. To say that causes of this imbalance lie outside the realm of the economy, in the conventional sense of the word, may create some misunderstanding. Nevertheless, looking at the diversity of counter-

measures, one can easily see that the causes of inflation common to the advanced nations of the world arise from the social foundation on which, the economy rests.

The explanation that imbalance taking the form of pollution or destruction of the environment is caused by noneconomic factors is probably more persuasive. The spirit guiding modern economic life used to include confidence in the possibility of infinite development. The Industrial Revolution was an achievement of this spirit. In terms of the physical conditions of living, this event drastically improved the fulfillment of human desires. Population growth can be interpreted as one of its side effects. But economic development based on the philosophy of infinite growth, has brought about destruction of the environment unawares. Or we may say that growth has been realized at the expense of the environment. First there appeared the fear of exhaustion of natural resources. Then came the pollution of seas, rivers, and air. From these danger signals, it will not be long before people come to perceive that the earth is finite. People have renewed their appreciation of the natural environment in which they exist. Pollution is not necessarily a product of industry alone, but it is now realized that growth without consideration of the consequences has been the chief cause of pollution. Thus, economic growth is now seriously restricted by the environmental limits of the earth. There still is some way to go before this global problem becomes a problem perceived by each individual national economy. Resource reserves vary greatly from country to country, while the extent of environmental disruption also differs in accordance with levels and manners of industrialization. The warning voiced by the Club of Rome will probably not become a reality overnight. Nevertheless, it indicates the limits which economic growth cannot help but ultimately reach. These limits have taken different forms in the national economies of different countries.

The problem which deserves foremost attention in Japan is a shift in values. There has been a shift in the people's economic preferences from "growth first" to "welfare-centered management of the economy," from "exports first" to "stress on imports." This shift shows the limits of growth. First and foremost, the problem is an expression of the imbalance between man and environment, which takes the form of imbalance between production and economic welfare. This is not the first time, even in the case of Japan, that imbalance between production and living standards has become a problem. However, in the sense that the present imbalance has its source essentially beyond the realm of the economy, this imbalance poses a new type of challenge to the future of the Japanese economy.

IV. RECOVERING BALANCE

The future of Japanese economic growth depends on how these imbalances will be overcome. With the understanding that the difficulties or barriers which the Japanese economy faces are caused by rapid growth, we have examined the nature of such imbalances. We have shown that these states of imbalance which confront

the growth of the Japanese economy have been induced by factors more international than domestic and more noneconomic than economic, i.e., by factors beyond the bounds of the national economy. Therefore, these states of imbalance can be said to have greater instability. If one wishes to take a rather concrete look at this instability, one might simply imagine a diagram in which a GNP as large as one-third of that of the United States is superposed on a territory only 4 per cent of the area of the United States. Professor Edwin O. Reischauer once conceived a GNP map in place of the ordinary map [5]. An ordinary map would certainly show Japan as a small country, whereas a GNP map would depict a Japan larger than all of Southeast Asia. This was all of fifteen years ago. As already mentioned, the discrepancy has become far greater since then. It is like piling large loads on a small foundation. Probably no one would fail to sense instability when imagining this diagram.

In general, a mechanism which spontaneously rectifies imbalance is functioning in the economy. Many business fluctuations can be counted as examples of such self-adjustment. However, when imbalance becomes extreme there is a danger that the limits of self-adjustment may be exceeded. As is especially evident in the present state of the Japanese economy, new and different efforts are required to correct an imbalance caused by rapid growth which has been fostered by factors international and noneconomic in nature. This is the fate of all mature economies.

What is the way to solve this imbalance? In short, it is to expand the basis of economic activities, that is to say, to restore balance between the foundation and the loads it carries by enlarging the foundation. This is not the first time in history that a small nation with economic activities on a worldwide scale has emerged. England in the nineteenth century is one example, and farther back in history we find Spain in the eighteenth century. In these cases economic imbalance did not directly lead to catastrophe since the spheres of activities of both extended all over the world. It is obvious that the prosperity of England was established upon the gargantuan basis of the British Empire. Such prosperity was closely and inseparably tied with political aspects, i.e., colonialism. Needless to say, colonialism is a relic of the past. Nevertheless, economically speaking, in the nineteenth century it expanded the basis of England's activities to the entire British Empire and, therefore, virtually to all corners of the world. The prosperity of this small island country was achieved and maintained on this enormous base.

A similar expansion of the basis of the Japanese economy is necessary in order to stabilize its growth. This by no means implies militaristic expansion of territory or reestablishment of colonialism. Such are bygone ideas of another age. Therefore, setting such ideas aside, a study of expansion in terms of economic activities will present another solution—overseas capital investment. As a matter of fact, England furthered overseas investment along with its economic growth, and the United States also adopted policies of a similar pattern after the war. Should Japan also rely on expansion of overseas investment in order to enlarge its base of economic activities? This is, indeed, one solution, or should we say, this is

one means which is already being put into practice. But if this overseas investment is merely an outflow of capital in pursuit of profits, it will not, under the present circumstances, exert the stabilizing influence which it once did in England's case. This is evidenced by the fact that American overseas investment, which has generally been quite profitable for the multinational corporations involved, is being blamed for socially destabilizing effects. For instance, such investment is opposed by the AFL-CIO on the ground that it deprives American workers of job opportunities. Such objections reflect important changes in the international environment since the nineteenth century. The situation is most serious because instability in one country will lead to widening international instability. In all cases overseas investment requires due preparation in order for it to bring stability to a country and, ultimately, to the international economy.

Expansion of the base of economic activities overseas will, no doubt, be accompanied by large capital outflows. Regardless of whether it takes the form of joint ventures with indigenous capital or independent business ventures, overseas expansion should not aim only at immediate economic profits. It should always envisage the real growth of the economy of the recipient country as its aim. This approach has already been frequently stated as a principle of aid and, therefore, requires no elaboration here. However, it should be emphasized here that since the imbalance confronting the Japanese economy is of an international nature, restoration of balance must be carried out on an international scale, with economic growth of developing nations, naturally, being the primary condition.

Such expansion of the base of the Japanese economy will effectively counter inflation and pollution, imbalances partially or totally emanating from noneconomic factors. Needless to say, these are outstanding global problems. The way to solve them is to spread Japan's base of economic activities worldwide. The intention of this statement is not, however, to demand what is impossible—that Japan copes with these global problems all by itself. Solution to these problems requires that every nation abandon its parochial attitudes and seek new spheres of activity in mutual cooperation. Japan should at least make a contribution befitting its economic power. Since much has been said about these matters, I will not dwell on them further here.

In summary, the way to counter the serious imbalance facing the economic growth of Japan is, in a single word, internationalization. In other words, it is to rectify the imbalance between the substructure and superstructure through implementation of internationalization. The need for such a course is already made keenly evident by the reality of the barriers against economic growth. But the core of this problem is far deeper than the merely technical question of how to surmount individual barriers from time to time. This core may not reveal itself in its entirety for some time, and until then the Japanese economy will probably continue to follow the present path of growth. However, with a long-range view of the problem, we have to be prepared against the central imbalance which lies at the core of current problems. To do so is to be farsighted.

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